

UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND

AUDITED FINANCIAL STATEMENTS
AND
OTHER FINANCIAL INFORMATION

YEARS ENDED JUNE 30, 2010 AND 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2/9/11

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Statement of Net Assets in Liquidation Available for Benefits – June 30, 2010	3
Statement of Net Assets Available for Benefits – June 30, 2009	4
Statement of Changes in Net Assets in Liquidation Available for Benefits – For the Period May 5, 2010 through June 30, 2010	5
Statement of Changes in Net Assets Available for Benefits – For the Period July 1, 2009 through May 4, 2010	6
Statement of Changes in Net Assets Available for Benefits – For the Year Ended June 30, 2009	7
Notes to the Financial Statements	8-18
Additional Information - Schedule of Expenses	19
Other Reports Required by <i><u>Government Auditing Standards</u></i> :	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21
Summary Schedule of Findings	22-23
Reports by Management:	
Schedule of Prior Year Findings	24
Management's Corrective Action Plan	25



INDEPENDENT AUDITORS' REPORT

Board of Trustees
United Teachers of New Orleans
Health and Welfare Fund
New Orleans, Louisiana

We have audited the accompanying statement of net assets available for benefits of United Teachers of New Orleans Health and Welfare Fund (the "Fund") as of June 30, 2009 and the related statement of changes in net assets available for benefits for the year then ended, and the statement of changes in net assets available for benefits for the period July 1, 2009 through May 4, 2010. In addition, we have audited the statement of net assets in liquidation available for benefits as of June 30, 2010, and the related statement of changes in net assets in liquidation available for benefits for the period May 5, 2010 through June 30, 2010. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note L, the Fund's third-party benefit claims processing function was not audited and we were unable to form an opinion regarding the amount of program benefits incurred in the accompanying statement of changes in net assets (stated at \$ 1,849,491 in 2010 and \$ 1,911,043 in 2009).

In our opinion, except for the effects on the June 30, 2010 and June 30, 2009 financial statements of the matter discussed in the preceding paragraph – had program benefits been susceptible to satisfactory audit tests, the June 30, 2010 and June 30, 2009 financial statements referred to in the first paragraph present fairly, in all material respects, the net assets available for benefits of United Teachers of New Orleans Health and Welfare Fund as of June 30, 2009 and the changes in net assets available for benefits for the year then ended, and for the period from July 1, 2009 through May 4, 2010, its net assets in liquidation available for benefits as of June 30, 2010, and the changes in its net assets in liquidation available for benefits for the period May 5, 2010 through June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Fund will continue as a going concern. As discussed in Notes D and Q to the financial statements, there is substantial doubt about its ability to continue as going concern. Management's plan in regard to this matter is also described in Note Q. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As further discussed in Notes D and Q to the financial statements, United Teachers of New Orleans Health and Welfare Fund, the Plan's sponsor, adopted an amendment on May 4, 2010 to terminate the plan on July 31, 2010. In accordance with accounting principles generally accepted in the United States of America, the Plan has changed its basis of accounting used to value plan assets from the ongoing plan basis to the liquidation basis for periods after May 4, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2010 on our consideration of the United Teachers of New Orleans Health and Welfare Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information – schedule of expenses for June 30, 2010 and June 30, 2009 – on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information for the years ended June 30, 2010 and June 30, 2009 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated (except in relation to the matter discussed in paragraph 3) in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Notes A, D & M to the financial statements, the State of Louisiana created a new "Recovery School District" in November of 2005 with responsibility for approximately 90% of the schools that were formerly under the control of the Orleans Parish School Board (the School Board). The School Board subsequently terminated most of its employees and discontinued making contributions to the Fund at the end of 2005. The School Board has not made any contributions to the Fund during from that point through the date of this report.

Hienz & Macaluso, LLC

HIENZ & MACALUSO, LLC

Metairie, Louisiana

December 29, 2010

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
STATEMENT OF NET ASSETS IN LIQUIDATION AVAILABLE FOR BENEFITS
JUNE 30, 2010**

ASSETS:

Investments at fair value:

U.S. Government securities	\$ -
Money market funds	-
Total investments	<u>-</u>

Receivables:

Contributions receivable - Orleans Parish School Board	-
Accrued interest	-
Total receivables	<u>-</u>

Property and equipment:

Furniture and equipment (net of accumulated depreciation of \$19,598)	-
Total property and equipment	<u>-</u>

Other assets:

Prepaid expenses	-
Cash in bank	19,913
Total other assets	<u>19,913</u>

Total assets	<u><u>19,913</u></u>
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LIABILITIES:

Accounts payable and accrued expenses	25,332
Bank drafts outstanding	9,015
Due to State of Louisiana - unclaimed property	-
Estimated claims incurred but not reported	
Dental and vision claims	-
Hospital income protection claims	-
Medical dollar account claims	-
Total liabilities	<u>34,347</u>

NET DEFICIT IN LIQUIDATION AVAILABLE FOR BENEFITS	<u><u>\$ (14,434)</u></u>
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The accompanying notes are an integral part of these financial statements.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
JUNE 30, 2009**

ASSETS:

Investments at fair value:

U.S. Government securities	\$ 1,037,660
Money market funds	<u>1,638,272</u>
Total investments	<u>2,675,932</u>

Receivables:

Contributions receivable - Orleans Parish School Board	-
Accrued interest	<u>24,240</u>
Total receivables	<u>24,240</u>

Property and equipment:

Furniture and equipment (net of accumulated depreciation of \$13,362)	<u>19,599</u>
Total property and equipment	<u>19,599</u>

Other assets:

Prepaid expenses	6,385
Cash in bank	<u>245,058</u>
Total other assets	<u>251,443</u>

Total assets	<u><u>2,971,214</u></u>
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LIABILITIES:

Accounts payable and accrued expenses	29,239
Bank drafts outstanding	77,507
Due to State of Louisiana - unclaimed property	48,614
Estimated claims incurred but not reported	
Dental and vision claims	50,881
Hospital income protection claims	58,963
Medical dollar account claims	<u>390,807</u>
Total liabilities	<u>656,011</u>

NET ASSETS AVAILABLE FOR BENEFITS	<u><u>\$ 2,315,203</u></u>
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The accompanying notes are an integral part of these financial statements.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION AVAILABLE FOR BENEFITS
FOR THE PERIOD MAY 5, 2010 THROUGH JUNE 30, 2010**

Additions to net assets attributed to:

Investment income:

Net depreciation in fair value of investments	\$ -
Interest earned	46
Total	<u>46</u>

Less investment expenses	<u>-</u>
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Net investment income	<u>46</u>
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Contributions	-
Dental and vision premiums	-
Gain on sale of building	-
Miscellaneous income	<u>1,217</u>

Total	<u>1,217</u>
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Total additions	<u>1,263</u>
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Deductions from net assets attributed to:

Payments for:

Dental and vision program benefits	-
Medical dollar account benefits	361,929
Hospital income protection benefits	-
Teacher's centers	<u>-</u>

Total operating expenses	<u>361,929</u>
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Administrative expenses	<u>71,754</u>
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Total deductions	<u>433,683</u>
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Net decrease	(432,420)
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Net assets, beginning of period	<u>417,986</u>
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Net assets (deficit), end of period	<u><u>\$ (14,434)</u></u>
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The accompanying notes are an integral part of these financial statements.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE PERIOD JULY 1, 2009 THROUGH MAY 4, 2010**

Additions to net assets attributed to:

Investment income:	
Net depreciation in fair value of investments	\$ (22,589)
Interest earned	<u>27,749</u>
Total	<u>5,160</u>
Less investment expenses	<u>4,765</u>
Net investment income	<u>395</u>
Contributions	-
Dental and vision premiums	4,634
Gain on sale of building	-
Miscellaneous income	<u>109,845</u>
Total	<u>114,479</u>
Total additions	<u>114,874</u>

Deductions from net assets attributed to:

Payments for:

Dental and vision program benefits	-
Medical dollar account benefits	1,741,038
Hospital income protection benefits	-
Teacher's centers	<u>6,501</u>
Total operating expenses	<u>1,747,539</u>
Administrative expenses	<u>264,552</u>
Total deductions	<u>2,012,091</u>
Net decrease	(1,897,217)
Net assets, beginning of period	<u>2,315,203</u>
Net assets, end of period	<u>\$ 417,986</u>

The accompanying notes are an integral part of these financial statements.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED JUNE 30, 2009**

Additions to net assets attributed to:

Investment income:	
Net depreciation in fair value of investments	\$ (42,978)
Interest earned	<u>123,535</u>
Total	<u>80,557</u>
Less investment expenses	<u>(8,803)</u>
Net investment income	<u>71,754</u>
Contributions	-
Dental and vision premiums	12,782
Gain on sale of building	278,308
Miscellaneous income	<u>29,892</u>
Total	<u>320,982</u>
Total additions	<u>392,736</u>

Deductions from net assets attributed to:

Payments for:	
Dental and vision program benefits	760,238
Medical dollar account benefits	1,336,615
Hospital income protection benefits	119,768
Teacher's centers	<u>209,811</u>
Total operating expenses	<u>2,426,432</u>
Administrative expenses	<u>485,308</u>
Total deductions	<u>2,911,740</u>
Net decrease	(2,519,004)
Net assets, beginning of period	<u>4,834,207</u>
Net assets, end of period	<u>\$ 2,315,203</u>

The accompanying notes are an integral part of these financial statements.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

A. Description of fund:

General

The following description of the United Teachers of New Orleans Health and Welfare Fund (the "Fund") provides only general information. Participants should refer to the Fund agreement for a complete description of the Fund's provisions.

The Fund is a Taft-Hartley Fund created under the authority of Section 1224 of Title 17, Louisiana Revised Statutes. The Fund was organized on January 28, 1980 upon execution of a "declaration of trust" (Trust) to receive and invest contributions from the Orleans Parish School Board made in accordance with the Collective Bargaining Agreement in effect between the Orleans Parish School Board and the United Teachers of New Orleans Bargaining Unit. The Fund is administered by a Board of Trustees consisting of not more than ten (10) persons, of which half are appointed by the Orleans Parish School Board. The Fund has provided members of the bargaining unit with a program of dental, vision, hospital income protection, life, disability, a medical dollar account and other participant benefits.

The terms of the Trust Agreement specify that in the absence of: 1) a collective bargaining agreement between the School Board and the Union; and 2) any other contributions by the School Board, the Fund is to start the process of termination and the Fund's reserves must be used to provide permissible benefits under the Trust Agreement and to pay for related operating expenses. These two conditions have been met. The School Board has not made a contribution to the Fund since June 30, 2005. Then on June 30, 2006, the collective bargaining agreement between the School Board and the Union expired. Therefore, benefits are being provided to pre-Katrina participants and the reserves of the Fund will be used to provide benefits and meet operating expenses until all remaining reserves under the Fund are disbursed or until it is no longer practical to continue to provide benefits (See Notes D and M). Thereafter, the intent is to distribute all remaining funds after the payment of termination expenses.

Although the Orleans Parish School Board appoints half of the Trustees of the Fund, the School Board is only financially liable for the contributions called for under the Collective Bargaining Agreement; all assets and income of the Fund are held for the exclusive benefit of the Fund participants and cannot revert to either the School Board or the Union.

Benefits

The Fund has provided a program of dental, vision, hospital income protection, medical dollar account and other related benefits due to sickness, and also provides professional development programs and activities, which relate to student instruction.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Description of fund (continued):

Benefits (continued)

During 2006 the Fund notified participants that all eligible employees of the School Board that were covered for benefits through the Fund on August 31, 2005, would continue to be covered for benefits they enrolled in through August 31, 2006. Newly hired employees of the School Board who were not yet eligible for benefits as of August 31, 2005, would not be eligible for participation in the Fund nor be eligible for any of its benefits.

On August 31, 2006, all life insurance benefits provided to participants through the Fund terminated (participants were able to apply individually for continued benefits with the insurance company).

Effective June 30, 2009, all employees of the Center for Professional Growth and Development and all fringe benefits from UTNO Fund were terminated. Participants were notified that effective July 1, 2009, the only benefit program afforded by the UTNO Health & Welfare Fund was the "Enhanced Medical Dollars Account". The maximum amount that can be reimbursed is \$1,750 for medical expenses. On May 4, 2010, the board moved to terminate the plan on July 31, 2010.

The Fund offered the following benefits during 2010:

1. \$1,750 Enhanced Medical Dollar Account (claims accepted through April 15, 2010)

The above information represents a summary of benefits provided by the Fund. For more detailed information regarding the Fund's benefits and eligibility participants should contact FARA, formerly Total Benefits Services, Inc. (the current claims administrator) directly at (800) 596-3150 (toll free) or (504) 832-4800 (local) or call the United Teachers of New Orleans Health and Welfare Fund office.

Contributions

Historically, the majority of the Fund's support came from the annual contribution (made in monthly installments) from the Orleans Parish School Board per the Collective Bargaining Agreement. For the year ended June 30, 2006, the School Board was contractually obligated to remit an annual contribution to the Fund of \$800, for every employee who is a member of the bargaining unit (See Notes A, D & M). The Fund alleges that the full contribution amount was not made in 2005 and no contributions were made in 2006. Subsequent to June 30, 2006, the Collective Bargaining Agreement has expired and the School Board has no obligation for any further contributions from that point forward.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

B. Summary of significant accounting policies:

The financial statements of the United Teachers of New Orleans Health and Welfare Fund have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to Health and Welfare Benefit Funds, and in accordance with the terms of the trust agreement. A summary of the Fund's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of accounting

The accompanying financial statements are presented on the liquidation basis of accounting as of May 5, 2010. Previously, the financial statements were presented on the accrual basis.

Revenue recognition

The Fund has historically recognized contributions as income based on census information received from the Orleans Parish School Board. For the year ended June 30, 2005 the Fund determined the School Board did not remit the entire amount of contributions owed. The School Board has not remitted any contributions for the year ended June 30, 2006. The School Board's contention is that no additional amounts are owed for 2005 or 2006 - see additional discussion in Notes A, D & M. This dispute had not been resolved as of the date of this report, therefore the amount of the receivable, if any, for the years ended June 30, 2005 and 2006 could not be determined. In accordance with generally accepted accounting principles no amounts were reported in the financial statements related to contributions not remitted by the School Board.

Premium revenue is recorded as earned based on the time period covered by the premium. Accruals on premium revenue are recorded based on supporting information received from the third party administrator and actual premium payments received subsequent to the Fund's fiscal year end.

Valuation of investments

The Fund's investments are stated at fair value. Securities traded on the national securities exchange are valued at the last reported sales price on the last business day of the plan year.

Receivables

The Fund considers amounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required (See above discussion regarding revenue recognition and Notes A, D & M).

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Summary of significant accounting policies (continued):

Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives (ranging from 5 – 40 years) on a straight-line basis. Depreciation expense was \$5,638 and \$5,638 for the years ended June 30, 2010 and 2009, respectively.

IBNR

Fund liabilities for dental, vision, hospital income protection and medical dollar account claims incurred but not reported or processed as of June 30, 2009 are estimated by the Fund's consultant. As of June 30, 2010, the Fund did not estimate benefit obligations due to the termination of the fund as discussed in Note D.

C. Use of estimates in preparation of financial statements:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Termination of the Fund:

The term or existence of the Fund (or "Trust") is considered indefinite as authorized by the Declaration of Trust executed January 28, 1980. However, the Fund is terminated when there is no longer in effect an agreement between the Orleans Parish School Board (the "School Board") and the United Teachers of New Orleans (the "Union") which requires School Board payments for the purposes provided by the Declaration of Trust and when the Funds have been exhausted; unless the School Board, at its sole discretion, unilaterally decides to continue making contributions to the Fund. As discussed in Notes A & M to the financial statements the collective bargaining agreement has expired and the School Board is no longer required to make contributions to the Fund. Therefore, effective November 3, 2006 pursuant to a resolution passed by the Trustees of the Fund, the reserves of the Fund are being used (and have been since July 2005) to provide benefits and meet operating expenses until all remaining reserves under the Fund are disbursed or until it is no longer practical to continue to pay benefits.

On May 4, 2010 the board moved to terminate the plan on July 31, 2010.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

E. Concentrations of credit risk:

The Fund maintains cash balances at several banking institutions and brokerage institutions. The Federal Deposit Insurance Corporation insures accounts with balances up to \$ 250,000 at each banking institution. The accounts at the brokerage institution are insured by the Securities Investment Protection Corporation up to \$100,000 (cash) and up to \$500,000 (securities) with the remaining balance being fully insured by the brokerage institution through private insurance. At June 30, 2010 and 2009, the Fund's uninsured cash balances totaled approximately \$0 and \$0, respectively; during the years ended June 30, 2010 and 2009 the Fund's bank pledged investment securities to cover the fund balances in excess of the FDIC limit.

F. Concentrations of revenue:

The Fund received a substantial amount of its revenue from contributions under a collective bargaining agreement with the Orleans Parish School Board during 2005 and payments for dependent coverage of plan participants during 2007 and 2008. Contributions have been discontinued (See Notes A, D & M) and payments for dependent coverage received have significantly decreased. The Fund's operations have been significantly impacted (See notes A, D & M).

G. Investments:

Investment management companies hold the Fund's investments. The following schedule reflects the cost and fair market value of the investments at June 30, 2009, there are no investments held by the Fund at June 30, 2010:

During the year June 30, 2010 the Fund's investments held during the year depreciated in value by \$ 22,589. Proceeds received from the sale of investments during 2010 were \$ 2,639,913 with realized losses in the amount of \$ 40.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Investment Type	Face Amount	Rate	Maturity	2009 Cost	2009 Market
<u>Cash equivalents:</u>					
Money Market Funds - Government	n/a	n/a	n/a	\$ 1,638,277	\$ 1,638,272
<u>U.S. Treasury Notes:</u>					
U.S. Treasury Note	1,000,000	6.50%	02/15/10	1,123,125	1,037,660
Total U.S. Treasury Notes	n/a	n/a	n/a	1,123,125	1,037,660
Grand totals	n/a	n/a	n/a	\$ 2,761,402	\$ 2,675,932

During the year June 30, 2009 the Fund's investments held during the year depreciated in value by \$ 42,981. Proceeds received from the sale of investments during 2009 were \$ 3,358,494 with realized losses in the amount of \$25,640.

H. Net assets, end of year:

The Fund's Board of Trustees has designated the use of net assets available for benefits of the fund. The net assets available for benefits as of June 30, 2010 and 2009 are designated as follows:

	<u>2010</u>	<u>2009</u>
Claims fluctuation reserve	\$ -	\$ -
Contingency (economic) reserve	-	-
Property reserve	-	-
Undesignated	(14,434)	2,315,203
Total net assets – end of year	<u>\$ (14,434)</u>	<u>\$ 2,315,203</u>

The Board has not designated any additional reserves as of June 30, 2010 and 2009 since the Fund has entered the final spend down phase in preparation for eventual termination.

I. Contributions:

There were no contributions from the Orleans Parish School Board and the United Teachers of New Orleans (UTNO) Bargaining Unit for the years ended June 30, 2010 and 2009.

Contributions from the Orleans Parish School Board were based on the number of employees covered by the Collective Bargaining Agreement. As described in Note M, the Fund has filed a lawsuit against the School Board for unpaid contributions.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

J. Tax status:

The Fund is qualified pursuant to Section 501 (c)(9) of the Internal Revenue Code, and accordingly is exempt from income taxes as a voluntary employee benefit association. The Fund has obtained a favorable tax determination letter from the Internal Revenue Service. The Fund's management believes that the Fund is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Fund's financial statements.

K. Retirement benefits:

The majority of the Fund's employees are covered under the State of Louisiana Teachers Retirement System (TRSL). The covered employees are required to contribute 8% of their covered salary and the Fund (employer) is required to contribute an employer contribution. The Fund contributed 15.5%, 15.5%, and 16.6% of covered payroll for the years ended June 30, 2009, 2008 and 2007 respectively. The employer contribution to the system amounted to \$10,410, \$19,788, and \$28,261 for the years ended June 30, 2010, 2009, and 2008, respectively. TRSL issues an annual publicly available financial report that includes financial statements and required supplementary information, as well as a summary annual financial report that provides basic financial information in an easily readable format. Those reports may be obtained by contacting TRSL at P.O. Box 94123, Baton Rouge, LA 70804-9123 or by calling (225) 925-6446.

L. Third party benefit claims:

The Fund uses third party benefit claims administrators to administer various segments of the Fund's programs. The Fund's third party benefit claims processing function was not audited because the program benefits were not susceptible to satisfactory audit tests. The total amount of program benefits included in the statement of changes in net assets available for benefits is recorded in the financial statements as follows:

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Dental and vision program benefits	\$ -	\$ 760,238
Service fees	<u>-</u>	<u>(113,064)</u>
Net dental and vision program benefits	<u>-</u>	<u>647,174</u>
Medical dollars account benefits	2,102,967	1,336,615
Service fees	<u>(253,476)</u>	<u>(192,514)</u>
Net medical dollar account program benefits	<u>1,849,491</u>	<u>1,144,101</u>
Hospital income protection benefits	<u>-</u>	<u>119,768</u>
Total program benefits, net of service fees	<u>\$ 1,849,491</u>	<u>\$ 1,911,043</u>

M. Commitments and contingencies:

Contract with Orleans Parish School Board

In November of 2005 the State of Louisiana created a "Recovery School District" that has responsibility for 112 schools formerly controlled by the Orleans Parish School Board. As a result of this legislation the School Board terminated the majority of its employees, a substantial number of which were participants in the fund. The School Board also stopped making its contributions under the Collective Bargaining Agreement during 2005. The School Board has not made any contributions during 2007 through the date of this report. The Fund's contract with the School Board terminated effective June 30, 2006 and has not been renewed as of the date of this report.

The Fund has filed a lawsuit against the Orleans Parish School Board for failing to make all required contributions for the 2005 fiscal year. The Fund alleges that \$457,410 in contributions, plus interest is owed to the Fund for 2005. The Fund has also filed a lawsuit against the Orleans Parish School Board for failing to make any of the required contributions for the 2006 fiscal year. The Fund alleges that \$4,998,400 in contributions, plus interest is owed to the Fund for 2006.

The Orleans Parish School Board has filed a "reconventional demand" denying that it owes any additional contributions to the Fund and alleged improper administration of the Fund by the Trustees and a breach of fiduciary duty on the part of the Trustees. The Fund intends to vigorously pursue its claims against the School Board and to vigorously defend itself against the allegations made in the reconventional demand. The Fund's fiduciary insurance carrier has agreed to defend the Trustees against the breach of fiduciary allegations made in the reconventional demand. Subsequent to June 30, 2007, the Orleans Parish School Board has

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Commitments and contingencies (continued):

dismissed with prejudice its Reconventional Demand against the Trustees. Thus, this issue is no longer relevant.

Regarding the 2004-2005 fiscal year, Discovery requests have been answered by the Fund and the Fund has served discovery requests upon the Orleans Parish School Board. The Fund commenced to take the Corporate Deposition of the School Board, though the Deposition has not been completed. The Fund intends to vigorously pursue its claim against the Orleans Parish School Board.

The School Board filed its Answer on March 14, 2007 to the lawsuit for the fiscal year 2005-2006. In the School Board's Answer, it alleges several exceptions and affirmative defenses. Discovery has been sent by the Fund and answered by the School Board. The Fund intends to vigorously pursue this claim against the Orleans Parish School Board.

The lawsuits were set for trial. With the encouragement of the Court, the Fund and the Orleans Parish School Board agreed to settle both cases for a Consent Judgment of \$2,975,000. The Orleans Parish School Board did not agree to pay the amount but did agree to enter into a settlement. As of the date of this report, the parties are in the process of negotiating the settlement.

The Fund's attorney concluded that the "likelihood of an unfavorable outcome" regarding the allegations by the School Board cannot be estimated at this time. In accordance with generally accepted accounting principles the financial statements do not reflect any potential gains or losses that might result from events discussed in the preceding paragraphs.

The Fund has also filed an action for Declaratory Judgment on May 4, 2010 in Orleans Parish District Court, asking for (i) approval of the cash lump sum distribution of the remaining assets of the Fund to Fund participants and, (ii) asking for the monitoring of the \$2,975,000 settlement with the Orleans Parish School Board by the undersigned. The matter was set for hearing on June 18, 2010, but was postponed at the request of the Fund. The reason being, the Fund is not certain how much cash remains since the Fund was forced to stop paying benefit claims due to its concern that it had insufficient cash funds to pay those benefit claims. The Fund is uncertain at this time how much cash remains and what its request will be of the court as to distribution of the remaining cash.

N. Property and equipment:

The Fund's remaining property and equipment were donated during 2010. Total property & equipment for 2010 and 2009 amounted to \$0 and \$19,599 respectively.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

O. Lease agreements:

The Fund entered into a lease for office space in May of 2009. The lease requires payment of \$775 per month and the term is twelve months. The lease will terminate in April 2010 with an option to renew on a month-to-month basis or for one additional three year term with an annual increase in rents. In the event funding for UNTO Health and Welfare Fund is drastically reduced or eliminated the Fund must notify the lessor in writing, within 30 days of receipt of said notification and include written evidence of the Fund's change in status. Upon acceptance by lessor, the Fund may then terminate this lease by paying the equivalent of two months' rent as a cancellation fee. The Fund extended its lease to May of 2010 following the lease termination.

The Fund also entered into a lease arrangement for two storage unit spaces. The lease requires payment of \$290 per month per storage unit. A discounted rate of 50% for the first three months was received and the lease can be cancelled by either party upon a five day notice prior to the end of current rental period. Total expenses under operating leases for 2010 and 2009 amounted to \$13,974 and \$3,040, respectively. The building and storage lease has been terminated as of June 30, 2010.

P. Fair value measurement:

The Plan's investments as of June 30, 2009 are reported at fair value in the accompanying statement of net assets available for benefits.

		Fair Value Measurements Using:	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	
	<u>Fair Value</u>		
Cash equivalents	\$ 1,638,272	\$	1,638,272
Mutual funds	<u>1,037,660</u>		<u>1,037,660</u>
Total	<u>\$ 2,675,932</u>	\$	<u>2,675,932</u>

SFAS No. 157, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Fund uses

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Fair value measurement (continued):

appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Fund measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or Level 3 inputs were available to the Fund.

Level 1 Fair Value Measurements

The fair value of cash equivalents and mutual funds is based on quoted net asset values of the shares held by the Fund at year-end.

P. Subsequent Events

Subsequent to June 30, 2010 through the date the financial statements were available to be issued, transactions have been consistent with the termination of the fund. On October 5, 2010 a stop payment request was made in the amount of \$16,770 to close the Medical Dollar Fund account. The remaining funds are in the operating account and continue to be disbursed to cover the final operating expenses.

Q. Going Concern

As discussed in Notes D and Q to the financial statements, there is substantial doubt about its ability to continue as going concern. Management's plan in regard to this matter is also described in Note Q. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ADDITIONAL INFORMATION

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

ADDITIONAL INFORMATION

SCHEDULE OF EXPENSES

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Dental and vision program benefits:		
Claims	\$ -	\$ 647,174
Servicing fees	-	113,064
Total dental and vision program benefits	<u>-</u>	<u>760,238</u>
Medical dollar account:		
Claims	1,849,491	1,144,101
Servicing fees	253,476	192,514
Total medical dollar account	<u>2,102,967</u>	<u>1,336,615</u>
Other program benefits:		
Hospital income protection benefits	-	119,768
Teacher's centers	6,501	209,811
Total other program benefits	<u>6,501</u>	<u>329,579</u>
Administrative expenses:		
Salaries	109,020	127,662
Accounting and auditing	35,818	27,445
Bank charges	37	62
Benefits, consulting and actuarial	18,900	43,215
Board meeting expenses	656	818
Depreciation	5,638	5,638
Fringe benefits	19,530	58,671
Insurance and bonds	17,294	36,927
Legal	68,560	61,516
Miscellaneous	13,960	9,228
Payroll taxes	9,313	21,822
Postage	3,609	500
Printing	2,691	2,366
Supplies	17,665	61,094
Rent	8,525	2,325
Telephone	5,090	318
Travel	-	-
Utilities	-	25,701
Total administrative expenses	<u>336,306</u>	<u>485,308</u>
Total expenses	<u>\$ 2,445,774</u>	<u>\$ 2,911,740</u>

OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS



Independent Auditors' Report
on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

Board of Trustees
United Teachers of New Orleans
Health and Welfare Fund
New Orleans, Louisiana

We have audited the financial statements of United Teachers of New Orleans Health and Welfare Fund (the "Fund"), as of and for the year ended June 30, 2010, and have issued our report thereon dated December 29, 2010, which was qualified as to third-party benefit payments. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for determining our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial

reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings as finding 2010-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2010-1.

The Fund's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Fund's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of United Teachers of New Orleans Health and Welfare Fund and its management, federal and state awarding agencies and pass-through entities and the Legislative Auditor of Louisiana and is not intended to be, and should not be, anyone other than those specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Hienz & Macaluso, LLC

HIENZ & MACALUSO, LLC

Metairie, Louisiana

December 29, 2010

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

**SUMMARY SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

We have audited the basic financial statements of United Teachers of New Orleans Health and Welfare Fund (the "Fund") as of and for the years ended June 30, 2010 and June 30, 2009, and have issued our report thereon dated December 29, 2010, which was qualified as to third-party benefit payments. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of June 30, 2010 and June 30, 2009 resulted in a qualified opinion, as stated above.

Section I - Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements:

Internal Control:

Material Weakness - **NO**

Significant Deficiencies - **See finding 2010-1 below**

Compliance:

Noncompliance Material to the Financial Statements – **See finding 2010-1 below**

b. Federal Awards:

Not applicable

Section II - Financial Statement Findings

Finding 2010-1 Laws affecting Louisiana Government:

This is an internal control and compliance finding.

As noted in prior audits the Fund does not comply with Louisiana Government's public records regulations concerning the following areas:

- public bid law
- budgeting – submission and public participation
- open meetings – notices of meetings and official journals

The Fund believes that although it is subject to legislative oversight and the legislative auditor's review, it is not subject to the Public Bid Law, the Open Meetings Law and the budgeting provisions, which are applicable to public bodies.

We recommend that the Fund obtain a final determination from federal and/or state authorities regarding this matter and abide by all applicable laws and regulations.

Section III - Federal Award Findings and Questioned Costs

Not applicable.

Section IV - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2010 or June 30, 2009.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

**SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

Section I – Internal Control and Compliance Material to the Financial Statements

Item 2009-1 Laws affecting Louisiana Government – repeated in 2010, see Finding 2010 – 1.

Section II – Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2009.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2010**

The Fund does not comply with certain laws affecting Louisiana government in the areas of (i) Public Bid Law, (ii) Budgeting – submission and public participation, (iii) Cash Management (security for deposits) and (iv) Open meetings, notice of meeting and official journals. As noted in your audit opinion letter prior to the enactment of LA R.S. 17:1224.E, which expressly made trusts such as the Fund subject to legislative oversight and the legislative auditor's review, the Attorney General of the State of Louisiana had expressed the opinion, "Qualifying school boards can make contributions of public funds to a trust authorized by LA R.S. 17:1224 the funds so contributed are not subject to audit pursuant to R.S 24:513 and the Louisiana Governmental Audit Guide because they are not held in a fiduciary capacity by the school boards."

The Fund is not a "public body" as defined in LA R.S. 42.4.2A. (2). The majority of the Fund's funding came from the Orleans Parish School Board (the "Board"), though a substantial amount comes from participant contributions. The funding by the Board was pursuant to a labor agreement entered into as between the Board and the United Teachers of New Orleans (AFT; AFL-CIO/LFT).

The labor agreement expired on June 30, 2006 and no funding by the Board has been made since that date. In fact the Board did not make a contribution to the Fund for the period of July 1, 2005 through June 30, 2006 and under-contributed for the period of July 1, 2004 through June 30, 2005. The Fund has filed suit against the Board on the basis for failing to make the required contributions.

The Fund is a Taft-Hartley Fund and no Fund assets can ever revert back to the Board. The funds are not Board funds, but are held by trustees in a fiduciary capacity for the exclusive benefit of participants.

The above referenced statutes are applicable to public bodies. As such they are inapplicable to the Fund and there is no requirement for the Fund to comply with these statutes.